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OFFICERS AND DIRECTORS

DIRECTORS

D. R. Annett	Toronto, Ontario
G. Max Bell	Calgary, Alberta
Harold J. Egan	Halifax, N.S.
George R. Gardiner	Toronto, Ontario
Gerald F. Hayden, QC	Toronto, Ontario
James F. MacArthur	Calgary, Alberta
J. Morrison Pryde	Calgary, Alberta
J. M. Thomson	Calgary, Alberta
A. S. Williamson, QC	Calgary, Alberta

OFFICERS

G. Max Bell	Chairman of the Board
James F. MacArthur	President and Managing Director
J. Morrison Pryde	Vice-President and Treasurer
A. S. Williamson, QC	Secretary
Gerald F. Hayden, QC	Assistant Secretary
H. E. Beaton	Assistant Treasurer and Comptroller

EXECUTIVE COMMITTEE

James F. MacArthur
J. Morrison Pryde
D. R. Annett
A. S. Williamson, QC

REGISTRAR AND TRANSFER AGENTS

Eastern & Chartered Trust Co.
at Montreal

Royal Trust Company
at Toronto and Winnipeg

BANKERS

The Bank of Nova Scotia

AUDITORS

Peat, Marwick, Mitchell & Co.
Calgary and Toronto

HEAD OFFICE

330 University Avenue, Toronto, Ontario

EXECUTIVE OFFICE

816 - 7th Avenue S.W., Calgary, Alberta

SHARES LISTED

Toronto Stock Exchange
Montreal Stock Exchange

The new identification symbol

JAMES 

assists in the ready recognition of the Company, its operating divisions and its products. It appears on all products sold or manufactured by the Company, in addition to all stationery and printed material.

The Annual General Meeting of the Shareholders of the Company will be held at the Lord Simcoe Hotel, Toronto, Ontario, on April 6, 1966, at 11.00 A.M. A formal notice of the meeting, together with a form of proxy, is enclosed with this report.

SCOPE OF OPERATIONS



HIGHLIGHTS OF OPERATIONS

OPERATIONS

Net Sales	\$10,277,896
Net Earnings after Taxes	1,106,589
Net Earnings per common share	1.48
Capital Expenditures	77,823

YEAR END POSITION

Working Capital	1,633,930
Property, Plant and Equipment	3,053,664
Long Term Debt	829,000

OTHER STATISTICS

Working Capital Ratio	1.52
Average Number of Employees	424
Common Shares Outstanding	747,605
Number of Shareholders	3,179
Preferred Shares Outstanding	570

REPORT TO THE SHAREHOLDERS

The Directors of James United Steel Limited are pleased to present herewith a report on the condition and activities of your Company for the period ended December 31st, 1965. The present Management of your Company has been in office since June 30, 1965.

This report is the first for the Company since December 31st, 1963, and reflects the acquisition of Consolidated James Equipment Limited which took place on July 1st, 1965. The financial position of the Company has greatly improved since the last report. The problems of last year's receivership are past, and the Company now maintains a sound relationship with its Bankers.

The financial statements, included in this report, reflect the operations of the Company from January 1st, 1964 to June 30th, 1965 (during which period it was known as United Steel Corporation Limited), the operations of Consolidated James Equipment Limited for the five month period from January 30th to June 30th, 1965, and the combined operations, as James United Steel Limited from July 1st to December 31st, 1965.

The period ended December 31st, 1965, which covers only eleven operating months, proved most encouraging financially. On net sales of \$10,277,896, the Company had net earnings of \$1,106,589. Working capital stood at \$1,633,930.

At December 31st, 1965 the holders of 1,483 of the 2,053 preferred shares of the Company and the holders of \$171,000 principal amount of the \$1,000,000 principal amount of the Company's 6½% General Mortgage Sinking Fund Bonds Series A had converted their preferred shares and bonds into common shares of the Company, increasing the number of common shares outstanding from 697,586 to 747,605. The earnings per common share before these conversions were \$1.59 and after conversions are \$1.48.

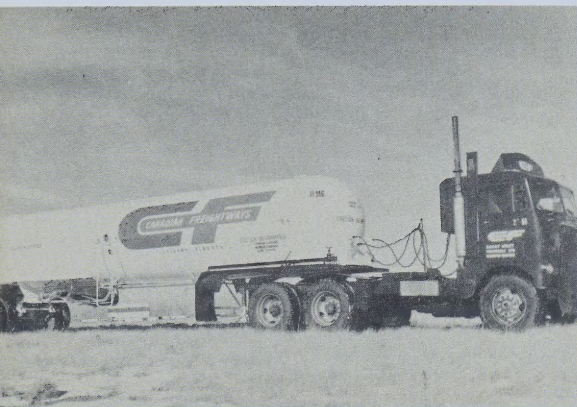
A major management function during the period July 1st to December 31st, 1965, has been the financial consolidation of the Company. The operations of the Company have been co-ordinated with those of Consolidated James Equipment Limited to form a cohesive manufacturing and sales team, concentrating on our proven lines of endeavour. All facilities of the Company operated at near peak capacity. Management has been broadened and strengthened, and it is the Directors' policy to continue such action in keeping with the expansion of the Company.

The general business outlook of the Company is bright.

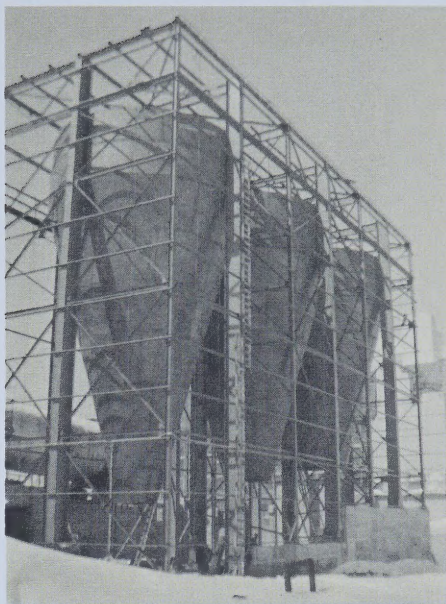
The structural business, which is handled out of Port Robinson, is very active and should continue at high sales levels for a number of years. This plant is presently, and is expected to be, a significant profit producer. Our Sherbrooke plant, which is engaged in the manufacture of asbestos milling equipment for export and domestic markets, recently completed a large order for the Soviet Union. Negotiations are in progress for additional export orders with Russia and other countries that could produce several million dollars of export business. The domestic asbestos industry, from latest reports, expects to acquire \$12 to \$15 million of new milling equipment during the next five years, and the Company expects to obtain a significant share of this business. It is anticipated that approximately \$20 million of like equipment will be acquired during the same period by the asbestos industry outside of Canada. The Company will be competing for a major share of this business. Our Sherbrooke plant is also active in the manufacture of propane tankage and will continue to increase sales in this phase of the Company's business.

The Calgary plant, from all indications, will continue at peak capacity, maintaining its position as one of the largest pressure vessel manufacturers in Canada.

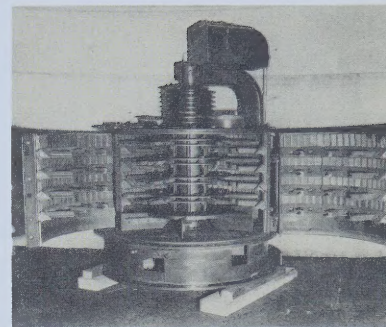
In summary, the Company is looking forward to increased manufacturing and sales activity during 1966, with an attendant increase in sales and profits.



PROPANE HIGHWAY TANKER



TYPICAL PORT ROBINSON
STRUCTURAL WORK



ASBESTOS FIBERIZER

During the current year, the Company plans additional financing to accommodate the growth of the Company's business. Some of the manufacturing facilities will have to be expanded, requiring additional capital expenditures. Furthermore, part of our growth involves the acquisition of businesses similar to our own that will broaden the operating base of the Company. Your Directors also feel there are other areas of business activity that offer promise of future earnings. We have formed a Natural Resources Division to participate in petroleum development in Western Canada, and in minerals exploration and development in Canada generally. The Company intends entering these fields in partnership with people knowledgeable in petroleum and minerals endeavours.

This year, Canadian industry as a whole, expects adjustments in the labour scene, involving principally new union contracts. The Company anticipates new contracts in some areas of its operations and hopes to arrive at new agreements without costly work stoppages.

Recently the shareholders were advised that the Company intends to further strengthen its Board, obtaining representation, if possible, from all of the major business areas of Canada. It is also the intention to reduce the Board from its present authorized eleven to seven members.

A general review of the Company's business is included in this report.

The Directors wish to extend their appreciation to all employees of the Company whose efforts have contributed to the success of the past year.

On behalf of the Board of Directors

J. F. MacArthur,
President

March 4, 1966.

GENERAL REVIEW OF THE COMPANY'S OPERATIONS

CALGARY PLANT

The facilities of the Company at Calgary operated at maximum capacity during 1965, and the total production of pressure tankage was the highest achieved to date. With respect to profitability, the plant continues to be a major contributor to the earnings of the Company.

An expansion program is presently under way to increase the production capability, consistent with expected industry requirements. The new machinery and building additions will increase plant working area to approximately 32,000 square feet.

PORT ROBINSON PLANT

Located near Welland, Ontario, this plant is the only facility retained by the Company following the receiver-ship order of January 1965. Primarily, the plant produces the steel components of buildings, bridges and like structures. The plant is comprised of six buildings, five of which are producing facilities, and the sixth houses the plant office and engineering department. Total manufacturing area is approximately 130,000 square feet.

Since July 1st, 1965, the Port Robinson plant has enjoyed a near capacity work load. Every indication points to continued high sales volumes in the structural business for the foreseeable future. Not resting on this, the Company is gradually diversifying this plant into other products not generally related to the structural industry. An example of such diversification is the manufacture of heavy pressure vessels for the propane industry, the petroleum refining industry, and chemical processing plants. The Company also contemplates some manufacturing for a new line of agricultural fertilizer storage and handling equipment.

SHERBROOKE PLANT

This facility is comprised of four main buildings, totalling 100,000 square feet of working area. As previously mentioned, the Sherbrooke plant produces custom machinery for a wide range of industry with particular emphasis on asbestos milling equipment. In addition, one of the four buildings houses tank manufacturing facilities which enables the Company to serve the propane tank market in Eastern Canada. This market is still in its infancy but is about to mature. If the Eastern Canadian market for propane tanks could reach the same stage of development as Western Canada, the potential volume of our Sherbrooke tank plant would be approximately two and one-half times greater than our Calgary tank plant.

The outlook in the asbestos equipment field appears very buoyant, as previously discussed. Both the domestic industry and export markets could provide the Company with exceptional sales volumes during the next five years.

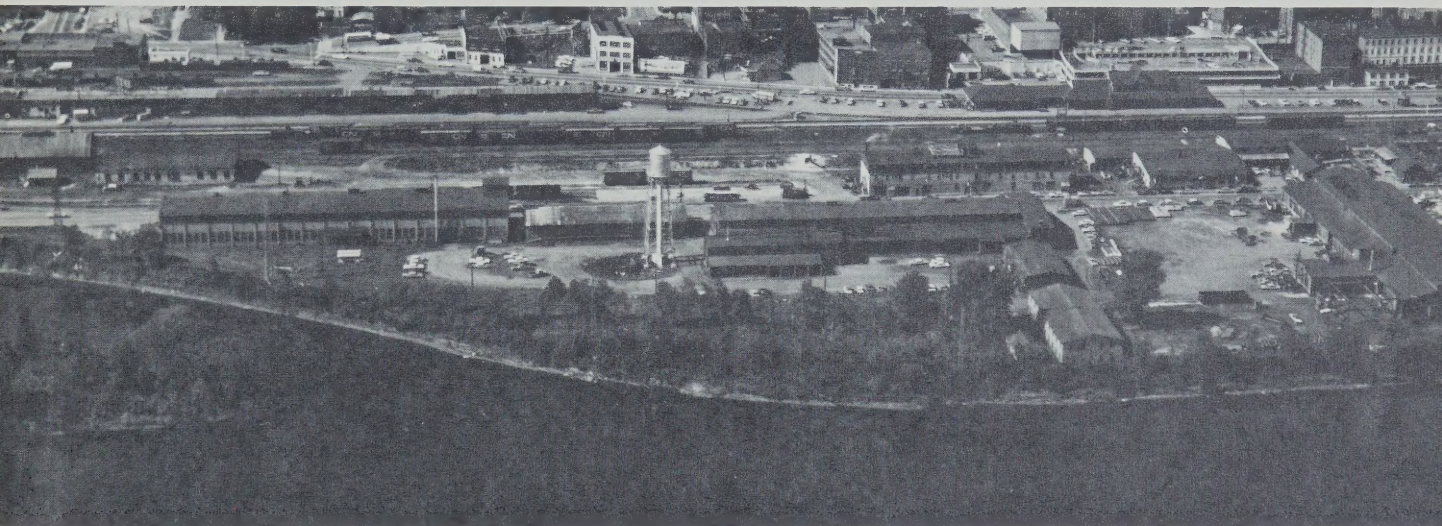
SALES AND WAREHOUSING DIVISION

Sales offices and warehouses are operated at Vancouver, B.C., Edmonton, Alta., Calgary, Alta., Winnipeg, Man., Rexdale, Ont., and Montreal, P.Q.

With the exception of specialty sales engineers, the total sales staff of the Company works from these branch offices under the direction of branch managers who in turn are directed by Regional Sales Managers. The principal function of these offices is to promote the sale of all of the manufactured products of the Company, as well as the equipment lines for which the Company acts as a jobber or wholesale distributor. This division of the Company also engages in the design and construction of plants utilizing the products of the Company.

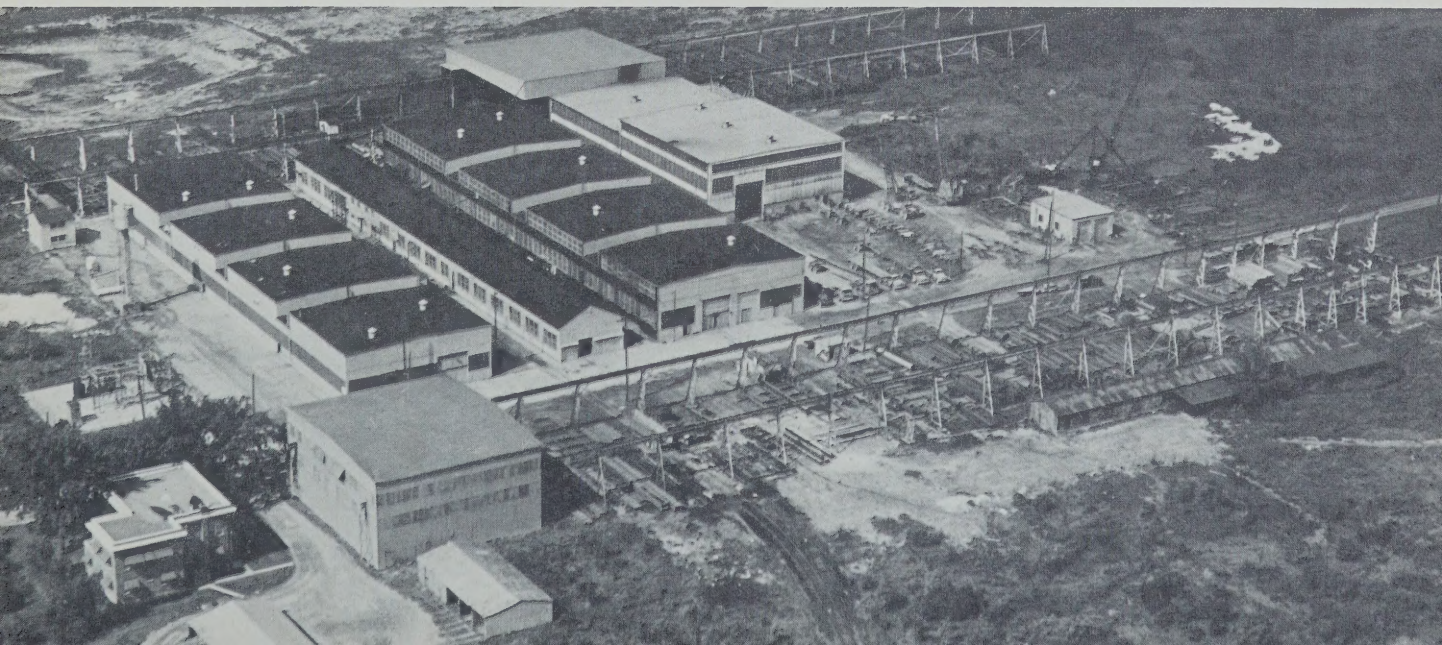


CALGARY PLANT



PORT ROBINSON PLANT ▽

△ SHERBROOKE PLANT



ASSETS

Current assets:

Accounts receivable		\$ 1,646,735
Inventories, at the lower of cost or market:		
Finished goods	\$ 872,610	
Raw materials and work in progress, less amounts received on progress billings of \$10,500	2,202,090	3,074,700
Prepaid expenses and deposits		25,092
Total current assets		4,746,527

Deferred account receivable relating to export sales contract (Note 2)		514,756
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Fixed assets, at cost less accumulated depreciation:

Buildings	937,936	
Machinery and equipment	2,073,893	
	3,011,829	
Less accumulated depreciation	1,726,617	
	1,285,212	
Land	41,835	1,327,047

Patents, at cost less amounts written off		43,864
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Unamortized bond discount		20,355
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Excess of cost of shares of subsidiary companies over underlying net book values at dates of acquisition		349,787
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Undertaking of Trustee to hold proceeds from realization of certain assets in satisfaction of amounts owing to unsecured creditors entitled to priority— contra (estimated) (Note 3)		162,500
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\$ 7,164,836

See accompanying notes

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of James United Steel Limited (formerly United Steel Corporation Limited) and subsidiaries as of December 31, 1965 and the consolidated statements of earnings and deficit for the period ended on that date (as set out in Notes (a) and (b) to the statement of earnings). Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances except as set forth in the following paragraph.

Our examination did not include a general review of the accounting procedures and tests of the accounting records relative to the operations of United Steel Corporation Limited (now James United Steel Limited) for the period from January 1 to June 30, 1965. The statements of earnings and deficit for this period are based on information supplied by the Receiver and Manager who carried on the operations on behalf of the company during this period and we cannot express an opinion on these statements.

BALANCE SHEET

31, 1965

LIABILITIES

Current liabilities:

Outstanding cheques less cash on deposit	\$ 179,424
Due to bank, demand loan, secured (Note 5)	1,519,900
Accounts payable and accrued liabilities	1,182,672
Income taxes—estimated (Note 9)	224,442
Dividend payable	6,159
Total current liabilities	3,112,597
Promissory notes payable to Trustee (Note 3)	750,000
6½ % Convertible General Mortgage Sinking Fund Bonds Series A (Note 6)	829,000
Amounts owing to unsecured creditors entitled to priority— contra (estimated) (Note 3)	162,500

Shareholders' equity :

Capital stock (Note 7):

Authorized:

- 2,053 6% cumulative convertible redeemable preferred shares of the par value of \$100 each.
- 1,000,000 common shares without nominal or par value.

Issued:

570 preferred shares	\$ 57,000	
747,605 common shares	4,762,463	
	4,819,463	
Deficit	2,508,724	2,310,739

Approved on behalf of the Board:

“J. F. MacArthur” Director

“J. M. Pryde” Director

\$ 7,164,836

to financial statements.

In our opinion, subject to the comments in the immediately preceding paragraph, the accompanying consolidated balance sheet and consolidated statements of earnings and deficit present fairly the financial position of the company and subsidiaries at December 31, 1965 and the results of their operations for the period ended on that date (as set out in Notes (a) and (b) to the statement of earnings) in accordance with generally accepted accounting principles. To the extent that we have examined the 1965 and 1964 operations of the consolidated companies we report that they are prepared on a consistent basis; to the extent that we have not so examined the operations we can give no opinion.

Calgary, Alberta
March 4, 1966

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

(Formerly United Steel Corporation Limited)

CONSOLIDATED STATEMENT OF EARNINGS

Period ended December 31, 1965

	James United Steel Limited and Subsidiaries (Note (a))	James United Steel Limited (Note (b)) Unaudited
Sales	\$10,277,896	\$ 5,725,351
Cost of sales and other expenses except for the undernoted charges	8,552,560	8,184,615
Earnings (loss) before the undernoted charges and income taxes	<u>1,725,336</u>	<u>(2,459,264)</u>
Other charges:		
Remuneration of directors	113,517	20,075
Interest on long term debt	80,117	28,222
Other interest	76,661	83,491
Bond discount written off	4,645	—
Depreciation and amortization	<u>123,807</u>	<u>1,217</u>
	398,747	133,005
Earnings (loss) before income taxes	1,326,589	(2,592,269)
Income taxes (Note 9)	<u>220,000</u>	<u>—</u>
Net earnings (loss)	<u>\$ 1,106,589</u>	<u>\$ (2,592,269)</u>

Notes:

- (a) Includes the operations of James United Steel Limited for the period July 1 to December 31, 1965 and the operations of Consolidated James Equipment Limited and Subsidiaries for the period January 30 to December 31, 1965.
- (b) Includes the operations of United Steel Corporation Limited (now James United Steel Limited) for the period January 1 to June 30, 1965.

STATEMENT OF APPRAISAL SURPLUS

Period ended December 31, 1965

Balance of consolidated appraisal surplus at December 31, 1964	\$ 332,446
Deduct amount transferred to deficit	<u>332,446</u>
Balance December 31, 1965	<u>\$ —</u>

See accompanying notes to financial statements.

Subject to the accompanying report of Peat, Marwick, Mitchell & Co.,
Chartered Accountants, dated March 4, 1966.

CONSOLIDATED STATEMENT OF DEFICIT

Period ended December 31, 1965

Deficit of United Steel Corporation Limited (now James United Steel Limited) at January 1, 1965, including surplus of subsidiaries of that date . . .		\$ 222,294
Add:		
Write down net book value of fixed assets to estimated realizable value . . .	\$ 1,501,902	
Less transfer of balance of appraisal surplus at December 31, 1964 . . .	332,446	
	<u>1,169,456</u>	
Provision for claim from trustee of employees' pension plan	275,000	
Provision for trustee's fee	350,000	
Excess of amount payable to trustee over the carrying value of the plant and equipment located at Port Robinson, Ontario	125,494	
Net loss of United Steel Corporation Limited (now James United Steel Limited) for the period from January 1 to June 30, 1965	2,592,269	
	<u>4,512,219</u>	
Less estimated forgiveness of indebtedness by creditors under terms of plan of compromise or arrangement	1,577,612	2,934,607
Deficit at June 30, 1965—Unaudited		<u>3,156,901</u>
Add financing expenses		117,979
		<u>3,274,880</u>
Less:		
Surplus of Consolidated James Equipment Limited and subsidiaries at January 30, 1965	582,947	
Less:		
Dividend declared on preferred shares by Consolidated James Equipment Limited	\$ 6,159	
Organization expense written off	<u>1,325</u>	7,484
	<u>575,463</u>	
Add net earnings of James United Steel Limited and subsidiaries for the period ended December 31, 1965	1,106,589	
	<u>1,682,052</u>	
Less surplus of Consolidated James Equipment Limited and subsidiaries at June 30, 1965 capitalized as a part of the issued capital stock of James United Steel Limited at date of acquisition	915,896	766,156
Deficit at December 31, 1965		<u>\$ 2,508,724</u>

See accompanying notes to financial statements.

Subject to the accompanying report of Peat, Marwick, Mitchell & Co.,
Chartered Accountants, dated March 4, 1966.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Period ended December 31, 1965

1. Principles of Consolidation:

The consolidated financial statements include the accounts of James United Steel Limited (formerly United Steel Corporation Limited), London-Gilbert Steel Limited (inactive), James Foundry Eastern Limited (formerly Toronto Foundry Company Limited) (inactive), Consolidated James Equipment Limited, James Equipment Limited, Calgary Steel Tank Limited (inactive) and Hall Machinery Limited (inactive). All intercompany accounts and transactions have been eliminated on consolidation.

2. The deferred account receivable is collectible over a period of approximately four years and relates to a large export sales contract negotiated by James Equipment Limited which was completed in the fall of 1965.

3. A plan of compromise or arrangement was approved by the shareholders of the company on June 25, 1965, and by the creditors, except unsecured creditors entitled to priority under the Bankruptcy Act (Canada), on June 30, 1965, and sanctioned by the Supreme Court of Ontario on July 2, 1965, whereby, amongst other things:

(i) The company is discharged and freed of all of its debts and liabilities incurred prior to the appointment of the Receiver, except amounts owing to unsecured creditors who would be entitled to priority under the Bankruptcy Act (Canada). The assets of the company referred to in (ii) below and the shares of certain wholly owned subsidiary companies are retained by the company for the continuation of its business. All of the remaining assets of the company have been transferred to a liquidator for realization on the company's behalf. The proceeds of the realization of such assets have been transferred to a Trustee to (a) retire in full all debts and obligations of the Receiver and Manager at June 30, 1965 including the claims of unsecured creditors entitled to priority and (b) the remaining proceeds of realization to be paid to the creditors of the company with claims at the close of business January 17, 1965. The unsecured creditors of the company with claims which are entitled to priority of payment under the Bankruptcy Act (Canada) and which are estimated at December 31, 1965 by the Receiver and Manager not to exceed \$162,500 are not bound by the plan of compromise or arrangement. The Trustee has undertaken to hold sufficient proceeds from the realization of such assets to satisfy the amounts owing to those creditors and the company will be entitled to set off any amount which it pays to such creditors against the amount which it from time to time owes to the Trustee.

(ii) The company is to pay to the Trustee for the benefit of the creditors an amount of \$1,050,000 under a promissory note secured by a first mortgage on the plant and equipment located at Port Robinson, Ontario, title to which is retained by the company. The company has also paid to the Trustee for the benefit of the creditors an amount of \$550,732 which amount represented the carrying value of inventory of raw materials and certain work in process held in the Port Robinson Plant at June 30, 1965, which inventory has also been retained by the company.

(iii) The promissory note in the amount of \$1,050,000 was paid as to \$300,000 on August 31, 1965 and will mature as to the balance of \$750,000 on June 30, 1967. The note bears interest at the rate of 6% per annum unless at least a further \$400,000 principal amount and interest accrued to June 30, 1966 is paid by that date, in which case the unpaid balance will bear no interest from that date until maturity but will bear interest at the rate of 6% per annum from June 30, 1967 if not paid in full by that date. The note may be repaid at any time without notice or bonus.

4. At December 31, 1965 the Trustee was holding certain assets of the company which were estimated to realize an amount of \$3,894,438. After deducting therefrom amounts owing to preferred creditors, unsecured creditors entitled to priority and provision for Trustee's fees, it is estimated that there will be an amount of \$476,158 available in respect of claims of unsecured creditors estimated at December 31, 1965, to amount to \$2,053,770. The difference between the two latter amounts, namely \$1,577,612, has been credited to deficit as forgiveness of indebtedness, in accordance with the terms of the plan of compromise or arrangement referred to in note 3.

5. The bank loan is secured by a general assignment of accounts receivable, inventories and hypothecation of James Equipment Limited First Mortgage Bonds as more fully set out in note 8.
6. During the year ended December 31, 1965, the company created and issued \$1,000,000 principal amount of 6½% Convertible General Mortgage Sinking Fund Bonds Series A maturing October 1, 1980 (hereinafter called "Sinking Fund Bonds") as follows:
 - (a) \$500,000 principal amount of Sinking Fund Bonds in consideration for the acquisition of \$500,000 principal amount of 6% General Mortgage Bonds previously issued by a subsidiary company, James Equipment Limited.
 - (b) \$500,000 principal amount of Sinking Fund Bonds for a cash consideration of \$475,000.

The company covenants to establish a sinking fund to provide for the retirement of \$100,000 principal amount of Sinking Fund Bonds on October 1, in each of the years 1971 to 1979 inclusive.

The Sinking Fund Bonds are redeemable under certain conditions.

The Trust Deed securing the Sinking Fund Bonds imposes certain restrictions on the company including the declaration or payment of dividends and issuance of additional bonds.

Each Sinking Fund Bond is convertible into common shares under certain conditions as follows:

- at the rate of \$6.50 per share if converted on or before October 1, 1970.
- at \$8.50 per share after October 1, 1970 and on or before October 1, 1975.
- at \$10.50 per share after October 1, 1975 and on or before September 30, 1980.

The Sinking Fund Bonds are secured by the General Mortgage Bonds of James Equipment Limited as more fully described in note 8, and by all the outstanding common and preferred shares of subsidiary companies as well as by a fixed and floating charge on all the movable and immovable property, rights, undertakings and assets of the company subject to the prior claim of the 6% Promissory Notes.

7. On June 28, 1965, the company received Supplementary Letters Patent changing its name from United Steel Corporation Limited to James United Steel Limited and changing the capital of the company as follows:

Cancellation of the then existing authorized but unissued 45,114 6% Class "A" preference shares of the par value of \$25 per share each, the creation of 2,053 6% cumulative convertible redeemable preferred shares of the par value of \$100 each, the consolidation of 174,570 unissued and 575,430 issued common shares (with a stated value of \$3,031,407) into 17,457 unissued and 57,543 issued common shares respectively and increasing the authorized capital to 1,000,000 common shares without nominal or par value, not to be issued for a consideration exceeding in value or amount \$10,000,000.

Each preferred share shall be convertible into 16 fully paid new common shares at any time on or before 12 o'clock noon, Toronto time, July 1, 1975. The shares are redeemable in whole or part upon payment for each share to be redeemed of the amount paid up thereon plus all unpaid and accrued cumulative dividends, except that the right to redeem the whole or any part of the preferred shares shall not become effective so long as the holders of the preferred shares may convert such shares into common shares.

During the year ended December 31, 1965 the company issued capital stock as follows:

- (a) 2,053 6% cumulative convertible redeemable preferred shares of the par value of \$100 each in consideration for the acquisition of the previously issued 2,053 6% cumulative redeemable preferred shares of the par value of \$100 each of Consolidated James Equipment Limited.
- (b) 557,500 new common shares without nominal or par value in consideration for the previously issued and outstanding 750,000 common shares without nominal or par value of Consolidated James Equipment Limited at a stated value of \$916,606 which represented the net book value of the common shares of Consolidated James Equipment Limited as shown by the consolidated accounts of that company at June 30, 1965.
- (c) 25,000 fully paid and non-assessable common shares in consideration for the acquisition of \$150,000 principal amount of 6% General Mortgage Bonds previously issued by a subsidiary of Consolidated James Equipment Limited.
- (d) 57,543 new common shares without nominal or par value at a stated value of \$6.00 per share being an aggregate amount of \$345,258 cash.
- (e) 23,728 new common shares without nominal or par value in consideration for the conversion of 1,483 6% cumulative convertible redeemable preferred shares under the conversion terms described above at a stated value of \$148,300.
- (f) 26,291 new common shares without nominal or par value at a stated value of \$6.50 per share in consideration for the conversion of \$171,000 principal amount of 6½% Convertible General Mortgage Sinking Fund Bonds Series A under the conversion terms described in note 6, being an aggregate stated value of \$170,891.50. Fractional shares were not issued and cash of \$108.50 was paid in lieu thereof.

8. Long term debt of a subsidiary company:

6% First Mortgage Bonds:

Authorized principal amount \$3,000,000

Issued to the company's bankers as collateral for the bank loan, \$1,900,000 principal amount designated as Series A and \$600,000 principal amount designated as Series B maturing July 1, 1966 and July 1, 1971 respectively. These bonds are payable prior to maturity on demand.

Principal and interest are secured by a first fixed and specific charge and a floating charge on all the immovable and movable property and rights, undertakings and assets of the subsidiary company both present and future.

6% General Mortgage Bonds:

Authorized and issued in the principal amount of \$1,026,700, maturing December 1, 1981.

The Trust Deed securing the General Mortgage Bonds provides for the establishment of a sinking fund for the retirement of \$60,000 principal amount of bonds in each of the years 1966 to 1980 inclusive. For this purpose, the subsidiary company has agreed to pay to the Trustee for the sinking fund on or before December 1 in each of the years 1966 to 1980 inclusive the sum of \$60,000.

Principal and interest are secured by a fixed and specific charge and a floating charge on all the immovable and movable property and rights, undertakings and assets of the subsidiary company both present and future subject to the prior charge of the First Mortgage Bonds referred to above.

The Trust Deeds securing the First Mortgage Bonds and the General Mortgage Bonds impose certain restrictions on the company including payment of dividends.

9. No income taxes are exigible on the earnings of James United Steel Limited for the period July 1, 1965 to December 31, 1965 as the company has sustained a net loss for the year ended December 31, 1965. Income taxes provided for the period ended December 31, 1965 relate to the earnings of subsidiary companies.

For the fiscal period ended December 31, 1965 and the fiscal year ended January 29, 1965 a subsidiary company, under the provisions of the Income Tax Act, has deducted for purposes of determining taxable income certain amounts in excess of amounts included in reported earnings and has excluded from taxable income certain income in respect of a long term contract which has otherwise been reflected in the accounts. The approximate net amounts involved and the relative reduction in taxes otherwise payable are as follows:

	Reduction of Income Subject to Tax	Reduction in Taxes Otherwise Payable
Fiscal year ended January 29, 1965	\$ 345,000	\$ 170,000
Fiscal period ended December 31, 1965	80,000	40,000
	<u>\$ 425,000</u>	<u>\$ 210,000</u>

Accordingly in future years taxable income will be increased by an aggregate amount of \$425,000 in excess of reported earnings.

THE UNAUDITED FINANCIAL STATEMENTS HEREINAFTER PRESENTED REFLECT THE FINANCIAL POSITION OF YOUR COMPANY FROM THE RECORDS AVAILABLE AT JUNE 30, 1965 WHEN YOUR COMPANY'S PRESENT MANAGEMENT TOOK OFFICE. THE CONDITION OF THE RECORDS AT THAT TIME WAS SUCH AS TO MAKE IT IMPRACTICAL TO ATTEMPT TO OBTAIN AUDITED FINANCIAL STATEMENTS.

UNITED STEEL CORPORATION LIMITED
(NOW JAMES UNITED STEEL LIMITED)

BALANCE SHEET — JUNE 30, 1965

ASSETS

Current assets:			
Inventories of raw materials and work-in-process, at the lower of cost or market, less amounts received on progress billings of \$67,803	\$ 550,732		
Total current assets	550,732		
Investment in wholly-owned subsidiaries:			
Shares of Toronto Foundry Company Limited (inactive), at underlying equity	\$ 99,859		
Shares of London-Gilbert Steel Limited (inactive) at underlying equity	1,154,625		
	1,254,484		
Less notes payable to inactive subsidiaries . . .	1,254,484		
Shares of Consolidated James Equipment Limited, at cost	1,121,906	1,121,906	
Fixed assets, at cost less accumulated depreciation:			
Buildings	682,201		
Machinery and equipment	1,546,346		
	2,228,547		
Less accumulated depreciation	1,322,041		
	906,506		
Land	18,000	924,506	
Undertaking of Trustee to hold proceeds from realization of certain assets in satisfaction of amounts owing to unsecured creditors entitled to priority—contra (estimated)	255,000		
	\$2,852,144		

LIABILITIES

Current liabilities:			
Due to Trustee on or before August 2, 1965 . . .	\$ 550,732		
Promissory note payable within one year—see below	300,000		
Total current liabilities	850,732		
Promissory notes payable to Trustee	\$1,050,000		
Less amount due within one year—above . . .	300,000	750,000	
Amounts owing to unsecured creditors entitled to priority—contra (estimated)	255,000		
Shareholders' equity:			
Capital stock:			
6% cumulative convertible redeemable preferred shares of the par value of \$100 each.			
Authorized and issued 2,053 shares	205,300		
Common shares without nominal or par value			
Authorized 1,000,000 shares; issued 615,043 shares—stated value	3,948,013		
	4,153,313		
Deficit	3,156,901	996,412	

Signed on behalf of the Board:
"J. F. MacARTHUR", Director
"J. M. PRYDE", Director

\$2,852,144

See accompanying notes to financial statements

UNITED STEEL CORPORATION LIMITED
(NOW JAMES UNITED STEEL LIMITED)

STATEMENT OF PROFIT AND LOSS

For the period from January 1, 1964 to June 30, 1965

Net loss from operations before the undernoted charges	\$3,003,162
Other charges:	
Directors' fees and expenses	\$ 4,791
Remuneration of executive officers and legal advisers	67,241
Past service pension costs	36,779
Bond interest	96,238
Depreciation	393,047
Loss on disposal of fixed assets	12,808
	610,904
Net loss for the period	\$3,614,066

See accompanying notes to financial statements

STATEMENT OF APPRAISAL SURPLUS

For the period from January 1, 1964 to June 30, 1965

Balance of consolidated appraisal surplus at December 31, 1963	\$ 332,446
Deduct amount transferred to deficit	332,446
Balance June 30, 1965	\$ —

See accompanying notes to financial statements

STATEMENT OF DEFICIT

For the period from January 1, 1964 to June 30, 1965

Surplus at January 1, 1964, including surplus of subsidiaries at that date	\$ 799,503
Deduct:	
Net loss for the eighteen months ended June 30, 1965	\$3,614,066
Write down net book value of fixed assets to estimated realizable value \$1,501,902	
Less transfer of balance of appraisal surplus at December 31, 1963	332,446
	1,169,456
Provision for claim from trustee of employees' pension plan	275,000
Provision for trustee's fee	350,000
Excess of amount payable to trustee over the carrying value of the plant and equipment located at Port Robinson, Ontario	125,494
	5,534,016
	4,734,513
Deduct:	
Estimated forgiveness of indebtedness by creditors under terms of plan of compromise or arrangement	1,577,612
Deficit at June 30, 1965	\$3,156,901

See accompanying notes to financial statements

UNITED STEEL CORPORATION LIMITED
(NOW JAMES UNITED STEEL LIMITED)

NOTES TO FINANCIAL STATEMENTS
June 30, 1965

1. On June 28, 1965, the company received Supplementary Letters Patent changing its name from United Steel Corporation Limited to James United Steel Limited and changing the capital of the company as follows:

Cancellation of the then existing authorized but unissued 45,114 6% Class "A" preference shares of the par value of \$25 per share each, the creation of 2,053 6% cumulative convertible redeemable preferred shares of the par value of \$100 each, the consolidation of 174,570 unissued and 575,430 issued common share capital (with a stated value of \$3,031,407) into 17,457 unissued and 57,543 issued common shares respectively and increasing the authorized capital to 1,000,000 common shares without nominal or par value, not to be issued for a consideration exceeding in value or amount \$10,000,000.

Each preferred share shall be convertible into 16 fully paid new common shares at any time on or before 12 o'clock noon, Toronto time, July 1, 1975. The shares are redeemable in whole or part upon payment for each share to be redeemed of the amount paid up thereon plus all unpaid and accrued cumulative dividends, except that the right to redeem the whole or any part of the preferred shares shall not become effective so long as the holders of the preferred shares may convert such shares into common shares.
 2. During the period 2,053 6% cumulative convertible redeemable preferred shares of the par value of \$100 each were issued in consideration for the acquisition of 2,053 6% cumulative redeemable preferred shares of the par value of \$100 each of Consolidated James Equipment Limited (hereinafter called "Consolidated James") and 557,500 new common shares without nominal or par value of the company were issued in consideration for 750,000 common shares without nominal or par value of Consolidated James at a stated value of \$916,606 which represented the net book value of the common shares of Consolidated James as shown by the consolidated accounts of that company at June 30, 1965.
 3. A plan of compromise or arrangement was approved by the shareholders of the company on June 25, 1965, and by the creditors, except unsecured creditors entitled to priority under the Bankruptcy Act (Canada), on June 30, 1965, and sanctioned by the Supreme Court of Ontario on July 2, 1965, whereby, amongst other things:
 - (i) The company is discharged and freed of all of its debts and liabilities incurred prior to the appointment of the Receiver, except amounts owing to unsecured creditors who would be entitled to priority under the Bankruptcy Act (Canada). The assets of the company referred to in (ii) below and the shares of certain wholly owned subsidiary companies are retained by the company for the continuation of its business. All of the remaining assets of the company have been transferred to a liquidator for realization on the company's behalf.

The proceeds of the realization of such assets have been transferred to a Trustee to (a) retire in full all debts and obligations of the Receiver and Manager at June 30, 1965 including the claims of unsecured creditors entitled to priority and (b) the remaining proceeds of realization to be paid to the creditors of the company with claims at the close of business January 17, 1965. The unsecured creditors of the company with claims which are entitled to priority of payment under the Bankruptcy Act (Canada) and which are estimated by the Receiver and Manager not to exceed \$255,000 are not bound by the plan of compromise or arrangement. The Trustee has undertaken to hold sufficient proceeds from the realization of such assets to satisfy the amounts owing to those creditors and the company will be entitled to set off any amount which it pays to such creditors against the amount which it from time to time owes to the Trustee.

 - (ii) The company will pay to the Trustee for the benefit of the creditors an amount of \$1,050,000 under a promissory note secured by a first mortgage on the plant and equipment located at Port Robinson, Ontario, with a carrying value of \$924,506, title to which will be retained by the company. The company will also pay to the Trustee for the benefit of the creditors an amount of \$550,732 which amount represents the carrying value of inventory of raw materials and certain work in process held in the Port Robinson plant at June 30, 1965, which inventory will also be retained by the company.
 - (iii) The promissory note in the amount of \$1,050,000 will mature as to \$300,000 on August 31, 1965 and as to the balance of \$750,000 on June 30, 1967 secured by a first mortgage on the lands, buildings and equipment of the Port Robinson division of the company. The note will bear interest at the rate of 6% per annum unless at least a further \$400,000 principal amount and interest accrued to June 30, 1966 is paid by that date, in which case the unpaid balance will bear no interest from that date until maturity but will bear interest at the rate of 6% per annum from June 30, 1967 if not paid in full by that date. The note may be repaid at any time without notice or bonus.
 4. At June 30, 1965 the Trustee was holding certain assets of the company which were estimated to realize an amount of \$6,644,169. After deducting therefrom amounts owing to preferred creditors, unsecured creditors entitled to priority and provision for Trustee's fees, it is estimated that there will be an amount of \$568,658 available in respect of claims of unsecured creditors estimated at June 30, 1965, to amount to \$2,146,270. The difference between the two latter amounts, namely \$1,577,612, has been credited to deficit as forgiveness of indebtedness, in accordance with the terms of the plan of compromise or arrangement referred to in note 3.
 5. Subsequent transactions:

Subsequent to June 30, 1965 the company entered into the following material transactions:

 - (a) The issue of \$1,000,000 6½% Convertible General Mortgage Sinking Fund Bonds Series A maturing October 1, 1980 (hereinafter called "Sinking Fund Bonds") as follows:
 1. \$500,000 principal amount of Sinking Fund Bonds in consideration for the acquisition of \$500,000 principal amount of 6% General Mortgage Bonds issued by a subsidiary of Consolidated James.
 2. \$500,000 principal amount of Sinking Fund Bonds for a cash consideration of \$475,000.The company covenants to establish a sinking fund to provide for the retirement of \$100,000 principal amount of Sinking Fund Bonds on October 1, in each of the years 1971 to 1979 inclusive.

The Sinking Fund Bonds are to be redeemable under certain conditions.

Each Sinking Fund Bond is to be convertible into common shares under certain conditions as follows:

 - at the rate of \$6.50 per share if converted on or before October 1, 1970.
 - at \$8.50 per share after October 1, 1970 and on or before October 1, 1975.
 - at \$10.50 per share after October 1, 1975 and on or before September 30, 1980.
 - (b) The issue of 25,000 fully paid and non-assessable common shares in consideration for the acquisition of \$150,000 principal amount of 6% General Mortgage Bonds issued by a subsidiary of Consolidated James.
 - (c) The acquisition of the remaining \$376,700 principal amount of 6% General Mortgage Bonds issued by a subsidiary of Consolidated James for \$376,700 cash.
 - (d) The issue of 57,543 common shares without par value at a stated value of \$6.00 per share being an aggregate amount of \$345,258 cash.
 - (e) By agreements dated (i) July 2, 1965, effective July 1, 1965, the company acquired all of the current assets, patents and operations of a subsidiary of Consolidated James at a cost of \$3,943,037, which amount is equal to the book value of the current assets and patents acquired. The consideration for this purchase was the assumption of certain liabilities of a subsidiary of Consolidated James in the amount of \$1,436,980 with the balance of \$2,506,057 payable on demand and (ii) July 5, 1965, leases were granted to the company by a subsidiary company of Consolidated James Equipment Limited on the land, buildings and equipment comprising the plants at Sherbrooke and Calgary.
- In connection with the transactions set out in (a) and (d) above, the company incurred issue expenses aggregating \$117,979.

SALES OFFICES AND WAREHOUSES

VANCOUVER

1034 Commercial Drive
Vancouver, B.C.
Area Code 604
253-7561

EDMONTON

9755 - 62 Ave.
Edmonton, Alta.
Area Code 403
439-6681

CALGARY

141 - 71 Ave. S.E.
Calgary, Alta.
255-6611
Plant 252-3727

WINNIPEG

870 Bradford Street
Winnipeg, Man.
Area Code 204
775-2002

TORONTO

11 Racine Road
Rexdale, Ont.
Area Code 416
247-5355

MONTREAL

JAMES 